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State in the Anglo-Spanish War of 1779-1783.

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ABSTRACT

The question we ask in this paper is how far Spain could be said to be a fiscalmilitary state. In other words, what were the Spanish state's possibilities and limits in terms of emulating and following the English model? We also ask whether such an approach might give us a useful purchase on Spain's warfare fund-raising capacity. We have focused on a specific war, the war between Great Britain and Spain from 1779 to 1783. This war was sufficiently important in both countries to call on the utmost effort from their respective states and economies. Spain had the chance in this conflict to put a stop to Great Britain's constant attacks on the Spanish empire during the eighteenth century. But it was not only a territorial question. The feasibility of Spain's whole economic model was also at stake. Spain's economy and taxation system was becoming more and more heavily dependent on colonial trade. Its government had opted to run the American colonies on an increasingly intensive basis, opening up the colonial markets to a greater participation from the whole of the Spanish economy. Heading off Great Britain from the Americas was a golden chance for this Spanish growth model to prosper.

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**POSSIBILITIES AND LIMITS: TESTING THE FISCAL MILITARY STATE
IN THE ANGLO-SPANISH WAR OF 1779-1783.**

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When John Brewer coined the term “fiscal-military state” he did so with the aim of explaining how eighteenth-century Great Britain managed to build up and maintain bigger armed forces on the strength of a larger and more efficient state administrative apparatus backed up by a wider-ranging fiscal and financial system, enabling it to win wars and, ultimately, attain world supremacy (Brewer, 1989). Strictly speaking the idea was not new; it drew on a long tradition of historical works on the relations between war, taxation and finances and the construction of the State (Kiser, 2001). Neither should it be restricted to the eighteenth century; works written after Brewer’s stress the fact that, even in Great Britain, the construction of a fiscal-military state was a much broader process, stemming from particular English taxation and administrative structures set up at the end of the fifteenth century (O’Brien, 2005). But the concept does serve as a starting point for making meaningful comparisons between different national cases.

This theory gives a reasonable explanation of Great Britain’s success in mobilising war-winning resources in the eighteenth century and also the failure of the European countries it waged war with (Hoffman, 1997); hence our interest in using it. There is in fact a certain consensus among historians that the other European countries were not capable of emulating Great Britain in building up a fiscal-military state. The key to the English model on this basis would be its different makeup from the models of European Monarchic and absolutist States, mainly France and Spain (O’Brien, 2001). France, on this theory, would have been incapable of building up a fiscal-military state on the English model because its government was unable to mobilise the fiscal resources of its states and was not backed up by an undertaking from its institutions and elites in favour of a greater tax and financial burden. By extension, but without any real justification, exactly the same conclusion is drawn about its Bourbon partner, Spain (Velde, 1992; Stasavage, 2003). According to this explanation the fiscal policy of these European countries was seriously hampered by the fact that the revenue collection was in private hands; the administration was weighed down by venal office holders and the state constantly had to negotiate with the powers and institutions of a regional and local level (Harris, 1976; Kwass, 1998). Great Britain was able to achieve a greater degree of fiscal concentration and secure the commitment of its institutions and elites to an ongoing increase in warfare resources, whereas the belligerent European countries were fettered by considerable limitations. Ironically, as Patrick O’Brien has pointed out, the English parliament and crown built up a state “that may well be represented as virtually the most ‘absolutist’ fiscal system in Europe” (O’Brien, 2002:17).

The question we ask in this paper is how far Spain could be said to be a fiscal-military state. In other words, what were the Spanish state’s possibilities and limits in terms of emulating and following the English model? We also ask whether such an approach might give us a useful purchase on Spain’s warfare fund-raising capacity. We have focused

on a specific war, the war between Great Britain and Spain from 1779 to 1783. This war was sufficiently important in both countries to call on the utmost effort from their respective states and economies. Spain had the chance in this conflict to put a stop to Great Britain's constant attacks on the Spanish empire during the eighteenth century. But it was not only a territorial question. The feasibility of Spain's whole economic model was also at stake. Spain's economy and taxation system was becoming more and more heavily dependent on colonial trade. Its government had opted to run the American colonies on an increasingly intensive basis, opening up the colonial markets to a greater participation from the whole of the Spanish economy. Heading off Great Britain from the Americas was a golden chance for this Spanish growth model to prosper.

1.- Military Function and Warfare.

According to Philip Harling, a fiscal-military state is defined by the functions fulfilled by the State. Great Britain ceased to be a fiscal-military state in the first two decades of the nineteenth century, basically because the State's top-priority functions changed. Up to that moment the English state was a veritable war machine, whose prime goals were security, foreign policy and the financing thereof. Up to the French wars, English legislative activity points to a clear conclusion: "the preoccupations of the fiscal-military state dominated parliamentary business" (Harling, 1993:52). The commitment of the crown, parliament and its elites to warfare and its financing guaranteed the viability of the state model (Stasavage, 2003), while the successes notched up in the wars justified the changes made and the sacrifices borne and even forged widespread grassroots support (Bowen, 1998, Conway, 2000). But, as Harling reminds us, all this consent and legitimacy vanished after the French wars, and, in the aftermath of the Industrial Revolution, other functions were now demanded from the state. The fiscal-military state was then dismantled and some of the traits of this model, like the construction of a state administration or public debt, then came in for some fierce flak and rejection.

According to this view, what defines a fiscal-military state above all is the dedication to its main function: warfare (waging it, maintaining it and defraying it). It might be well worthwhile to keep this idea firmly in mind (the essential function of the state in the eighteenth century is war) in the Spanish case, for this has been a controversial question in Spanish history writings. Many of the studies of Spain's state finances of the eighteenth century have centred on these finances as an indicator of the Spanish economy's degree of modernisation and as a means of weighing up the reformist policies of Spain's "enlightened despots" (Artola, 1982, Barbier, 1985, Fontana, 1989). Under this interpretation, military spending was a remora sucking the life out of the economy, a wasted investment that hindered the country from performing the really important tasks, which, according to these authors, were investment in infrastructure and economic promotion. Likewise, war has been blamed from this point of view as the main cause of the budget deficits. According to these authors this deficit forced the state to increase the tax burden, thereby balking progress and growth. In Spain, therefore, the view about the effect of war is diametrically opposed to that held in Britain. Among British historians there is a certain consensus about warfare's catalysing effects on the administration, on finances, on Great Britain's economic growth and, in short, on England's success. In Spain, however, the state's dedication to war has always been seen as a negative factor leading to its failure.

Table 1. *Expenditure Breakdown in Spain and Great Britain (1764-1793)*

	Spanish Net Public Expendit ure (000 Reales de vellón)	SPAIN					GREAT BRITAIN					
		Civil Gove rnme nt	Army	Navy	Defe nce	Debt	British Net Public Expendi ture (000 pounds)	Civil Govern ment	Army	Navy	Defenc e	Debt
1764-68	486,438	46.4	33.8	16.1	49 .9	3.7	10,360	8.4	19.1	21.0	42.8	47.0
1769-73	434,293	30.5	43.0	20.8	63.9	5.7	10,180	11.4	14.9	20.0	38.0	46.3
1774-78	484,071	29.3	40.7	26.1	66.8	3.9	13,435	10.1	26.3	21.8	52.2	35.2
1779-83	693,273	24.5	32.3	28.6	60.9	14.7	24,175	4.3	30.1	28.9	64.7	28.1
1784-88	611,921	30.2	31.1	25.8	56.9	12.9	19,775	7.4	11.7	29.0	43.6	46.6
1789-93	650,871	33.1	34.2	25.9	60.1	6.9	17,478	9.9	14.6	15.7	33.8	53.4
1764-93	560,144	31.8	35.3	24.4	59.6	8.5	15,901	8.0	20.1	23.7	47.7	41.6
1764-68	100	100	100	100	100	100	100	100	100	100	100	100
1769-73	89	59	114	115	114	137	98	133	76	94	87	97
1774-78	100	63	120	161	133	106	130	155	178	135	158	97
1779-83	143	75	136	253	174	565	233	119	366	322	353	140
1784-88	126	82	116	201	144	439	191	168	117	264	195	189
1789-93	134	95	135	215	161	249	169	198	129	127	133	192
1764-93	115	79	120	174	138	266	153	145	161	174	171	136

Source: Spanish figures taken from Merino (1987), AGS, DGT, Inv. 16, G.24, lg.49, and AGS, SSH, lg.293. British figures from Mitchell, 1988:578-580. The GB defence figures include Ordnance.

The Spanish state's spending on war was similar to Great Britain's but with certain idiosyncrasies. Throughout the period running from 1764 to 1793, Spanish spending on its armed forces was the highest public expenditure, accounting for about 60% of the total. With the exception of the period 1779 to 1783, the Spanish warfare percentage was always higher than the British and much more constant and regular. In Great Britain the spending trend in this period ebbed and flowed in line with the War of American Independence, while Spanish military expenditure hardly varied. In the years of highest warfare expenditure, 1779-1783, Great Britain more than tripled its expenditure, while Spain did not even double the 1764 figure.

This apparently greater stability of Spanish military spending is a corollary of the fact that public debt paid a much smaller part in Spain's spending as a whole. Although the available debt-expenditure figures do not include all the Spanish state's debt, leaving out part of the historic debt, they do reflect the newly-created debt and Spain's did not match the levels of the English public debt. In fact one of the most particular traits of Spain's expenditure model in the second half of the eighteenth century is precisely, to our point of view, the debt restriction policy, at least up to the 1790s. This fact has been largely overlooked by Spanish historians, who have always considered Spain's participation in the War of American Independence to have triggered a steeping rise of public debt (Barbier, 1985:490). The figures of Table 1, on the contrary, show that Spanish debt dropped sharply in the years following this war and fell far behind the levels being clocked up in Great Britain, where the war-financing costs exceeded the armed forces cost.

The stability of Spanish military expenditure was also partly the effect of a peculiar structure of warfare expenditure. Spain spent more on the army than on the navy. This seems to be illogical on two counts: firstly, Spain faced no serious land threats, having forged a strong alliance with France and reached peace with Portugal in 1776; secondly, its main economic and fiscal interest was in holding onto the American markets, calling for a strong naval force. Although naval spending rose steadily from 1764 onwards, it always fell far behind the expenditure on the army, another trait that differentiates Spain from Britain. While Great Britain was steadily building up what Patrick O'Brien has called a "fiscal naval" state (2005:37), Spain preferred, against all strategic logic, to spend more on the land forces. This predominance of the spending on the Spanish army over the navy contributed towards the characteristic stability of military spending in Spain. Thus, while army expenditure never rose more than 40%, navy expenditure more than doubled. Both Spanish figures differ markedly from the sharp falls and rises of English spending on its Army and Navy. In Spain's case there is a smaller difference in expenditure between peacetime and wartime. This shows that the Spanish military structures, especially in the army, were more rigid, less flexible than the English ones, which were better able to respond to warfare fluctuations, mobilising more military resources in time of war. Rather than warfare fluctuations, Spanish military expenditure on the army responded more to the collective desire of permanently maintaining land forces, due mainly to vested interests set up around the military function, such as privileges, social recognition or promotion (Andujar, 2004: 315-358). We can therefore say that warfare played its part in Spanish public spending as a general goal but did not bring about the convulsions in military spending that might have been expected; neither did it create the necessary debt. From the point of view of functions, the Spanish state paid top priority to warfare, but war did not have the catalysing effect it seems to have had in the English case.

Table 2.- Comparison of Military Spending.

SPAIN'S EXPENDITURE COMPARED TO GREAT BRITAIN'S										SPAIN				GREAT BRITAIN			
	Excha nge Rates	Spani sh Net Public Expen diture (poun ds)	Budg et as % of UK	Civil	Army	Navy	Defen ce	Debt		Spain's Populati on (000)	Total Spen ding per capita (poun ds)	Militar y Spen ding per capita (poun ds)	Spani sh Debt per capita (poun ds)	Great Britain 's Popul ation (000)	Total Spen ding per capita (poun ds)	Militar y Spen ding per capita (poun ds)	British Debt per capita (poun ds)
1764-68	39.31	5,312	51.3	282.1	90.4	39.4	59.8	4.0		9,399	0.57	0.28	0.02	7,542	1.37	0.59	0.65
1769-73	39.22	4,731	46.5	123.7	134.4	48.3	78.1	5.7		9,623	0.49	0.31	0.03	7,713	1.32	0.50	0.61
1774-78	38.23	5,141	38.3	111.2	59.1	45.9	49.0	4.3		9,848	0.52	0.35	0.02	8,005	1.68	0.88	0.59
1779-83	36.47	7,023	29.1	165.6	31.2	28.7	27.3	15.2		10,057	0.70	0.43	0.10	8,334	2.90	1.88	0.81
1784-88	35.29	5,999	30.3	123.5	80.6	27.0	39.6	8.4		10,267	0.58	0.33	0.08	8,636	2.29	1.00	1.07
1789-93	35.31	6,384	36.5	122.0	85.5	60.1	64.9	4.7		10,752	0.59	0.36	0.04	9,107	1.92	0.65	1.03
1764-93	37.29	5,802	36.5	145.2	64.0	37.5	45.7	7.5		10,066	0.58	0.34	0.05	8,223	1.93	0.92	0.80

Sources: See Table 1. The exchange rates are given in pennies by exchange weight (15 rs.v. and 2 mrs). The average value of each five year period has been used, taken on the last day of each month. All the other figures are in pounds sterling. The pound was worth about 95 reales de vellón in this period. Torres (2005). Figures of the Spanish population taken from Moreno (2004), figures of the Great Britain population taken from Mitchell. (1988)

A better idea can be gained of this military priority in the Spanish state's expenditure if it is compared with the English. To do so we have unified the account unit, using only pounds and introduced the population variable (Table 2). The resulting figures show that England's spending capacity was always considerably higher than Spain's, despite their similar population levels. The expenditure level of the Spanish state was on average less than 40% of the English, falling further behind all the time. Significantly, the

biggest gap between the two came during the war of 1779-83, when the Spanish state's expenditure was less than 30% of Great Britain's. The differences in both countries' military expenditure were somewhat smaller, although Spain never matched the English war spending and on average recorded less than half of England's military expenditure. This comparison highlights even more clearly the aforementioned idiosyncrasies of Spain's military spending. Indeed, the biggest difference between Spain and Great Britain is in the naval spending; Spain's never reached 40% of the English and in the critical war years it was only 30%. The countries' army expenditure figures, on the contrary, were much closer, Spain spending on its land forces nearly 70% of the English expenditure. But the most significant factor here is that Spain kept up a peacetime level of army expenditure even higher than Great Britain's. The Spanish state's interest in maintaining armed forces at all times, especially the army, and its hidebound inability to increase them in wartime are, in our view, the most salient features of the Spanish state's military function.

This military priority had to be financed, and it is here where Spain differs most from England. The Spanish public deficit never reached even 8% of Great Britain's. The Spanish debt was not only smaller than the English but also developed differently. Great Britain's public debt steadily accumulated and came to make up an increasingly large share of total expenditure, whereas Spain's public deficit grew appreciably only in the years 1779-83, and even then it never built up to 17% of Great Britain's effort. After these years Spain's public debt shrunk further in comparison to the soaring English debt, dropping to only 5% of the English debt on the eve of the French wars. The Spanish state thus accepted the obligation of keeping up its military resources, albeit far below Great Britain's levels, but did not make a similar effort in the financing thereof.

The per capita cost of the military function in Spain was therefore also much lower than England's. The Spanish population's contribution to public expenditure was only 30% of the English population's. And the average military expenditure of the Spanish, in terms of military and financial resources, was an even lower proportion of the English effort, only 22.6%. The differences in the military efforts of both countries peaked in the most critical years, precisely when most needed. The average Spanish contribution to the war effort in the years 1779-83 was only 11% of the English. The huge gaps between both belligerent countries in terms of mobilising military and financial resources is one of the most significant features of the Spanish fiscal military state. Just like Great Britain, the Spanish state had a marked military function but did not react to the war factor with anything like the same flexibility. Spain kept up a high military expenditure constantly and in the least strategic sector, while restricting the development of a public debt market. Great Britain, on the contrary, trimmed its mobilisation of military resources to the winds of war and set up a permanent debt market.

2.- Centralisation, Information and Fiscal Extraction

Another of the reasons often mooted by historians for the development and success of the English fiscal military state was its capacity of raising fiscal resources for funding military activities. Taxation studies tend to stress the enormous variety of the factors impinging on any country's level of taxation: its economic development, the institutions, the incidence of the market, the type of society and many others (Bonney, 1996). Patrick O'Brien showed for the English case that "economic growth was not the major factor behind the marked rise in tax revenue from 1660 to 1815" (1988:6). The taxes collected by the English state grew at a faster rate than its economy, stressing the importance of the changes made in its administration and fiscal policy (Beckett, 1990). One idea stands out in

this set of changes: Great Britain was able to increase its tax-raising capacity because of its control over the tax-imposition and -collection processes. The English state managed to introduce a high degree of centralisation into its tax collection system, cutting out the middle men, eliminating negotiations with regional institutions and securing the backing of the economic elites. These changes gave Great Britain a centralised, well-informed collection mechanism facing less resistance. Peter Earle commenting on John Brewer's theory of the English fiscal military state, points out that Brewer is in fact explaining to us "an information revolution engendered by the government's growing desire for knowledge about the economy" (1990:142).

The Spanish state shared these features in the eighteenth century and even outstripped England in some aspects. In the first half of the eighteenth century the Spanish state made a series of reforms in its fiscal and financial system, substantially modifying the system inherited from the seventeenth century (González Enciso, 2003^a, Tedde, 1989, 1998). The main goal of this reform process was to give the Real Hacienda (Royal Treasury) greater control over the nation's available stock of funds, thus putting an end to the dispersion of these funds, the plethora of middlemen and accounting inaccuracy. The Real Hacienda thereby managed to rein in the regional haciendas, mainly in the Crown of Aragón, and extend to their territories the state monopolies on consumer products (tobacco, salt, wool, paper, cards ...). It also set up a system of direct control over the municipal treasuries, giving it more information to work from in terms of intervening in the taxes and resources of local treasuries (García, 1996). In the same endeavour of centralisation and control, the Spanish state undertook, from the 1740s onwards, a thoroughgoing transformation of the revenue-collection administrative structure to wipe out the intermediary agents and set up direct state administration. By the early 1770s, 89.6% of all the Real Hacienda's revenue was collected directly by state officials¹. In short, the Spanish state had managed to set up a specific administrative structure for revenue collection, and its fiscal policy was no longer hemmed in by other institutional powers. In our view it would be reasonable to cease regarding the Spanish model as a mere adjunct of the French model (Kiser, 2001). In fact it might actually bear a much closer relationship to the English model.

But the Spanish state went even further in its desire to increase its control over the mobilisation of fiscal resources. Throughout the eighteenth century, picking up pace from half way through, it improved the level of information and accounting control over fiscal resources and also managed to knit the fiscal administration and the military administration tightly together, a process we could quite safely dub the "militarisation" of the taxation system. The biggest problem of Spain's treasury over the years had been the dearth of any precise information on available resources and the expenditure trend. A host of authorities and officials bungled up the works, making it impossible to gain a clear idea of anything. There was a need to set up a pyramidal administrative structure with a Secretario de Hacienda (Treasury Secretary) at the top and all accounting information flowing down through the stratum immediately below, the Tesorería General (Treasury General). From 1726 onwards the Treasurer General was the best informed official about the nation's available resources, the only official to whom all the other agents of the Real Hacienda were bound to hand over the revenue received, actually paying over the cash or making said revenue available to him. It was also the only institution authorised to issue the payments decided on by the Secretaría de Hacienda (Treasury Secretariat) (Dedieu, 1994).

¹ The remaining 10.4% belonged to leased revenue, such as the Revenue of Madrid, Excusado (tithes), Bula and Cruzada (indulgences). AGS, DGT, Inv. 16, G.24, Ig.49, and AGS, SSH, Ig.293.

This intense concentration of power and information was progressively phased into the *Tesorereros del Ejército* (Army Treasurers). A fiscal administration management model was brought in from 1743 onwards, whereby fiscal resources were not sent directly to the *Tesorero General* (Treasurer General) but were rather sent by the *Directores de Rentas* (Revenue Managers), or any other collection official, directly to the *Tesorereros del Ejército*, where they were then made available to the *Tesorero General*, who authorised in the last instance the necessary payments². To expedite the transfer of funds and ensure that accountancy procedures were kept up to date, it was established in 1753 that the *Tesorereros del Ejército* should from now on present their accounts in the same form as the *Tesorereros Generales*³. This enabled a standardised fiscal resources control system to be swiftly set up and easily used. This process was completed in 1749 with the definitive setting up of the *Intendants* system; these officials would now be responsible for revenue as a whole, giving them the necessary authority for fulfilling their final duties before the *Tesorereros del Ejército*. The possibility of any squabbling between *Tesorereros Generales* and *Intendants* over resources and the use thereof was headed off in 1760 in favour of the supreme authority of the *Tesorereros Generales*⁴. Most of the revenue of a region would therefore be received and administered by the respective *Tesorereros del Ejército*, under the eye of the *Intendants* and the overall control of the *Tesorereros Generales*. The result of this process is that, up to 1759, the army treasurers administered one third of revenue; in the 1760s they were managing over 50% (Piepper, 1992:92) and by the start of the 1770s they had managed to pool 62.4% of fiscal resources, peaking in 1774 at 74.4% of all revenue⁵.

On the eve of the War of American Independence, therefore, the Spanish state had managed to set up an administrative structure that enabled it to collect directly almost all taxes. The smooth operation of this system was favoured by the growing tendency towards the centralisation of authority, information and the accountancy management of revenue and expenditure, and by the strong bond between the civil and military treasuries. In Spain the taxes flowed in orderly fashion towards the military treasuries in peacetime and in wartime, without even the need for any institution's consent.

3.- The Structural Deficit and Colonial Trade.

All the above shows that Spain was eligible on some counts for being considered a fiscal-military state: military function and centralisation and control of its fiscal resources. It is now a question of finding out how the Spanish state really acted in a specific war, the acid test of how this all panned out in practice.

² AGS, SSH, lg.267.

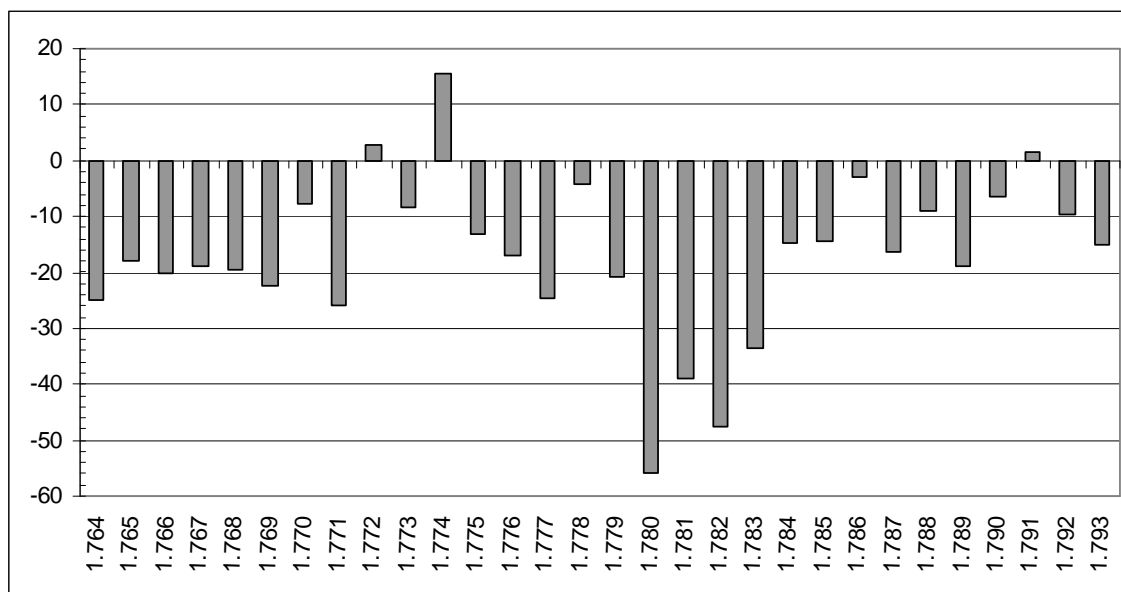
³ "Instrucción para los thesoreros de exercito y provincia, depositarios y pagadores, cuyas quantas estan mandadas comprehender en la del Thesorero General, sobre la forma y modo en que deben presentarlas, Madrid. 1753".AGI, Arribadas, lg. 524.

⁴ Witness the reply given by the *Tesorero General* Francisco Montes to the *Secretario de Hacienda* Miguel Muzquiz in view of the attempts by the *Intendant* of Valencia to use part of the revenue "I can find no orders, regulations or Instructions that might limit the Treasurer General's powers in shuffling the Funds from one purpose to another to meet the respective needs and urgencies of each treasury" (yo no encuentro ordenes, reglamento ni Ynstrucciones que limiten al Thesorero General las facultades en el manejo de Caudales de un destino a otro según los fondos de las respectivas tesorerías y sus urgencias). Madrid, 8-2-1776, AGS, SSH, lg.269.

⁵ Figures taken from AGS, DGT, Inv. 16, Guión 3, legajos 5 and 6.

To understand better the possibilities and limits of the Spanish fiscal-military state, the first thing we need to find out is the Spanish state's reaction capacity to war-imposed financial emergencies. The Spanish fiscal structure had a series of idiosyncrasies that might impinge on its reaction capacity. The most important was the fact that its ordinary revenue was not enough to cover annual public spending (See Graph 1)

Graph 1.- *Ordinary Revenue with respect to the Total Annual Expenditure of the Spanish State.*



We consider ordinary revenue to be all income received by the Spanish state in a regular and periodic form through established collection channels. We exclude from this category the extraordinary revenue received sporadically, such as the sale of assets, or received as loans, donations or public debt. According to this classification the Spanish state could not meet its habitual public spending needs with its ordinary revenue. The officials in charge of running Spanish finances were perfectly aware of this. The annual “rentas del Rey” (King’s Revenue) was not enough to cover ordinary costs and needed the input of extraordinary income to bridge the gap. Francisco Cabarrus, using the figures furnished by the Tesorería General for the 1770s, came to the same conclusion: the habitual situation of Spanish finances was one of “ordinary deficit”, estimated “from one year to another” as about 35 million (5.2 million pounds) (revenue of 416 to 420 million and expenditure of 455 million)⁶. Our expenditure breakdown here bears out the existence of this ordinary deficit at the level established by Cabarrus. From 1764 to 1793 ordinary revenue showed an overall 17.8% deficit on the public spending of the same period; only in three of those years was revenue sufficient to cover public spending. Nonetheless, the gap was closing; the structural deficit of nearly 20% in the 1760s fell by nearly half in the following decade. It then soared again during the war but the subsequent peace enabled the deficit to be clawed down to 9.5% by the first years of the 1790s.

This structural deficit is an important factor in terms of understanding the reaction capacity of Spanish finances. Firstly, the deficit remained structural because the officials in

⁶ AHN, Diversos, lg. 31.

charge of running Spanish finances were fully confident of being able to bridge the gap with extraordinary income, mainly from American trade. The Secretaría de Hacienda and the Tesorería General worked from the conviction that Spanish finances were subject to a cycle marked by the arrival of the colonial fleets. In each cycle the coffers would be run down, creating a more or less alarming deficit, until the colonial input would finally replenish them again, whereupon the whole cycle would start anew. Meanwhile the public finance officials were confident of being able to keep things tight and avoid any extravagance in habitual expenditure. And if the outlay was urgent and essential, the only option was to try to put it off until the fleet came in and brought with it the end of the cycle. Time and time again the docking of the American fleet in Cadiz baled out the economy, convincing the finance officials that the system worked. The graph below shows that the years when the deficit was reduced or even converted into a surplus were those in which the American fleet arrived (Bernal, 1992). Spanish public finances therefore had practically no saving capacity and no sort of “financial cushion” whatsoever”.

Table 3.- *Fiscal Resources in Spain and Great Britain.*

	INCOME SPAIN					GREAT BRITAIN			
	Total Net Income	Custom	Direct	Excise	Extraordin ary	Total net Income	Custom	Land Taxes	Excise
1764-68	478,547	27.6	29.7	22.7	17.9	10,285	23.4	21.1	46.9
1769-73	459,604	25.3	30.5	26.0	16.3	11,002	24.4	17.0	45.6
1774-78	482,551	31.6	30.1	27.5	7.8	10,968	23.2	18.7	52.9
1779-83	690,899	11.6	26.2	19.5	41.2	12,820	22.1	20.2	46.4
1784-88	596,109	40.4	26.9	22.5	8.4	15,444	25.2	17.9	42.7
1789-93	679,179	41.2	26.9	18.0	12.3	17,785	21.1	16.7	45.8
1764-93	667,636	25.0	23.8	18.8	30.6	13,051	23.1	18.4	46.4
1764-68	100	100	100	100	100	100	100	100	100
1769-73	96	88	99	110	87	107	111	86	104
1774-78	101	115	102	122	44	107	106	94	120
1779-83	144	61	127	124	332	125	118	119	123
1784-88	125	182	113	124	58	150	162	127	137
1789-93	142	212	129	112	98	173	156	137	169
1764-93	140	126	112	116	238	127	125	111	126

Source: See Table 1. The heading of “Direct” in Spain includes “Provincial Revenue” and revenue from the church, town councils, the Crown of Aragon and an army-funding tax called “Paja y Utensilios”

The colonial inputs not only marked the cycle of Spanish public finances but also determined its reaction capacity, and to a much greater extent than in the English case. Table 3 pools the fiscal resources of both countries in a comparable way. These figures show that while Great Britain relied more and more on consumer taxes for its revenue, Spain’s mainstay was trade. Neither country managed to lay down a solid fiscal base bearing a more or less direct and proportional relationship to individual income. In the English case this failure has been interpreted as the state bowing to the pressure of the farming elite and their refusal to continue to support the creation of a public debt system (O’Brien, 1993). In the Spanish case the failure of the “Unica Contribución” (a tax proportional to income) has been interpreted by some historians as evidence of the Spanish state’s inability to modernise its fiscal structures (Fontana, 1987), but it has also been criticised as essentially utopian, due to the technical impossibility of replacing eliminated revenue in the short term and the untimeliness of trying to introduce such a revolutionary concept of a fiscal system long before it would be set up in the rest of Europe, including Great Britain (Lluch, 1990).

In both countries, therefore, the fiscal resources were limited to indirect taxes. The essential difference between the two, however is that Great Britain was able to increase its taxes on trade and, above all, on consumption, whereas in Spain trade soon became the only real fiscal resource. Although we cannot go into it here, it is worth at least pointing out that Spain's inability to follow the English model of consumer taxes was bound up with a dwindling of the Spanish consumer's purchasing power, as a result of the different inflation rates and a supposed divergence in the productivity of both countries (Torres, 2005). The comparative feebleness of consumption in Spain only served to confirm the conviction that colonial trade should be milked to the full. European trade took a back seat, limited in essence to the exporting of wool and salt, and its main driving force was the imports to fuel colonial trade (Prados, 1993). This strategic character of colonial trade meant that Spain's economic policy of this period was dominated by repeated attempts to overcome the opposition and vested interests created by the American trade monopoly system. Opening up colonial trade to the whole Spanish economy and all regions seemed the best way of securing a wide-ranging fiscal base and thereby solving the structural deficit of Spain's finances. All the more surprising, therefore, that the navy should not be given top priority on the expenditure side. From the point of view of its fiscal structure, Spain had more reasons than Great Britain for setting up a true fiscal naval state.

4.- "Spain is different"

When Spain joined in the War of American Independence it was not only a matter of opportunity and revenge. Also at stake was the very essence of its fiscal model. Shoring up Spain's colonial trade would also guarantee the viability of its fiscal system. Spain was indeed a fiscal military state but, just like Great Britain itself in other wars, it is more than likely that it joined in the war not because war was its function but rather because, at this juncture, it was an essential move to guarantee the ongoing expansion of its economy and fiscal base.

Whatever the ultimate reason for joining in the war, the cost was certain to be high. Waging war with Great Britain meant shutting down its Atlantic trade and temporarily forfeiting this strategic revenue. What were Spain's chances of replacing this revenue? The structural-deficit cycles of Spain's public finances had also taught its financial authorities to develop "survival" strategies, i.e., resources and instruments to tide them over until the boat came in. It is here where Spain really does begin to differ from the English case, where "Spain is different".

Spain's financial structure, and the high degree of centralisation and control achieved, gave its financial authorities a certain leeway in handling the funds, enabling them to mobilise or freeze them to suit the particular circumstances. This does not mean these funds could be used whimsically or arbitrarily, since all its actions and accounts would be carefully vetted and approved or rejected by a higher auditing body called the "Tribunal Mayor de Cuentas". This framework of possibilities (room for manoeuvre within a regulated and public system) allowed the Spanish authorities to cut down the ordinary deficits. One of the preferred methods was to create physical money deposits to be used in times of "emergencies". This money almost always came from the American fleets or the "Real Giro" (the institution set up for making silver payments outside Spain and which produced a sizeable yield for the Real Hacienda). The money was stashed in strategic expenditure sites such as Cádiz, Madrid or Barcelona, until the time came to use it.

According to Barbier, Charles III used 270 million from these deposits between 1765 and 1769 (Barbier, 1985:478); in fact, according to the figures of the Tesorería

General, the figure was 416.8 million between 1763 and 1769⁷. This practice continued in the following years. In June 1774 the Secretario de Hacienda ordered 60 million reales in silver to be sent to Madrid (tantamount to the ordinary deficit of two years)⁸. The origin of this money seems to be bound up with the sale of tobacco in Mexico, the fruits of which were sent to the Tesorería General. It was not counted as Indies revenue although in the three year period running from 1774 to 1776 it added up to the tidy sum of 100.4 million reales (Torres, 2006a). We suspect that this strategy of putting aside money from the Americas was also a way of slipping the leashes of the Consulado de Sevilla (merchant's guild with exclusive rights to trade with the New World). The traditional practice hitherto to tide over the government in cases of emergency had been to ask the Consulado for advance payments or donations against future fleets. This practice had enabled this institution to build up an unwelcome clout and pressure-exerting capacity. (Kuethe, 1999). In fact the last donation application was made in 1769 (Bernal, 1992:309).

The outbreak of the War of Africa in December of this same year and the subsequent colonial war against Portugal limited the creation of new deposits, largely because nearly everything received on the new fleets was already spoken for, as occurred in 1776 and 1778. Nonetheless this practice was not completely renounced, though recourse was made to mainland revenue. An order was given to the Directores de Rentas that part "of the product thereof" should be set aside until building up to a million reales. In 1781, the Tesorero General gave an order to the Directores Generales de Rentas, that "the urgencies of the Crown now being such that it can no longer do without the reserved provision of one million pesos fuertes to meet any untoward case of the Royal Service, the Directores are hereby charged to furnish same with notice of the King"⁹.

The use to which this deposit and the former ones were put leaves no doubt about their strategic purpose, which was not so much to overcome the structural deficit but rather to endow the royal treasuries with immediate liquidity, especially the Tesorería General, thereby bolstering public credit. In the period running from late 1774 to late 1779 they were tapped into repeatedly for such liquidity purposes to meet the exigencies of the wars in Africa and Portugal. Witness the order given in February 1777 to send 8 million to the Tesorería General from the Deposit of Madrid, because what remained in the treasury at that moment "this wherewithal does not suffice to meet the rest of the expenditure needs of the royal houses of troop and ministry"¹⁰. In July of the same year another order was given that from the "funds set aside in the deposit room of the Tesoreria Mayor that the Caja of the same Tesorería be endowed with" another sum of seven million¹¹. The biggest problem for the Spanish royal coffers is that this seam was completely worked out in the years 1775 to 1778 and Spain was now about to wage war on Great Britain without being able to fall back on this traditional resource of makeshift liquidity for public finances.

The other resource traditionally used by the Spanish authorities for overcoming urgencies also stemmed from the treasury officials' resource-allocation capacity. The

⁷ AGS, DGT, Inv. 16, Guión 24, lg.49.

⁸ AGS, SSH, lg. 267.

⁹ "estrechando las urgencias de la Corona tanto que ya no es posible tener más tiempo sin uso el repuesto reservado de un millón de pesos fuertes que para atender a cualquiera caso inopinado del Real Servicio, se encargo a los Directores tuviesen a mi disposición con noticia del Rey". Marqués de Zambrano to Directores de Rentas, Madrid, 29-10-1781 AGS, SSH, lg.997.

¹⁰ "no es suficiente esta existencia para atender al despacho del resto del haber de Casas Reales de Tropa y Ministerio"

¹¹ "caudal que con separación existe en la Pieza de Deposito de la Tesoreria Mayor se saquen y pongan en la Caja de la misma Tesorería" Reales Ordenes (Royal Orders) of 27-2-1777 and 11-7-1777, AGS, SSH, 270.

Spanish treasury contained a large number of “cajas” or cash treasuries in which money was deposited for very varied purposes. At first their operation bore no direct relation to the “Real hacienda” since they served only for the ad hoc purposes. The list of the “cajas” was a very long one, ranging from treasuries with huge resources such as the “Real Giro”, the “Depositaria de Temporalidades”, which managed the property and revenue of expelled Jesuits and the “Fondo Vitalicio”, which pooled the deposits of the Renta Vitalicia (Life Annuity), down to much smaller “cajas” such as the money-coining “Casas de Monedas”, the treasuries of the “Ordenes Militares” (Military Orders), “Fondo de Caminos” or the “Caja de Bienes de Difuntos”, which served as a deposit for sending back to Spain the funds of those who died in the Americas. The use by the Tesorero General of one or other of the list of mobilised “cajas” rose and fell according to the degree of urgency of the “Real Hacienda”.

The Tesorero General drew on these “cajas” on many occasions between 1775 and 1784. It is worthy of particular note, however, that this was never regarded as an expropriation. The overriding idea was that they were always to be used on a “repayment basis”. This principle was adhered to even in the case of small cajas, such as the “Caja de Bienes de Difuntos”, run by the “Casa de Contratación” (House of Trade), from which sums of up to 2 million reales were withdrawn “on the basis of short-term repayment” from 1775 onwards to meet various urgencies in Cádiz. In March 1783 the order was given for the repayment to be made “against the yield of the duties of the latest fleet”¹². The limit was often set by the Tesorero General himself, who did not hesitate to draw on any caja, but was always deeply concerned about the effects of these fund transfers on public opinion. In October 1776, for example, at a time of soaring expenditure, the Tesorero General, Francisco Montes, informed the Secretario de Hacienda, Miguel Múzquiz, that what most concerned him about the debts being run up was that more than 17 million reales taken that year from the “Temporalidades” caja “on the basis of short-term repayment”¹³ could not in fact be repaid in the short term and that this might sow doubts and suspicions in the minds of the public: “and above all undermine the public’s faith in the credit of the treasury and bring it into general disrepute”¹⁴.

This recourse had the virtue of funding the state with interest-free money. The problem was that it had been overmilked in the years running from 1775 to 1778, and had been run dry by the start of the war in 1779, by which time there was even an outstanding debt. Spanish diplomacy did all it could to put off Spain’s entrance in the War of American Independence, precisely to give the fleet of 1778 time to arrive. But the yield of this fleet served only to cover part of the money taken from many cajas and pay back part of the outstanding debt. At the end of 1778, despite the huge amount of money flooding in from the Americas, 164 million, the Tesorero General explained that he had no option but to tell the Secretario de Hacienda that everything had been quickly eaten up. In mid January he wrote that only 2.8 million remained in the caja of the Tesorería General and only 15.1 million in all the Army Treasuries together. The “Real hacienda”, he concluded, was on the verge of ruin and he bluntly stated that he had no idea how to face the new year: “it is impossible to cover current expenditure with the ordinary products of the realm ... there are

¹² “a cargo del producto de los derechos de la última flota” AGS, SSH, lg. 63.

¹³ “calidad de su pronto reintegro”

¹⁴ “y sobre todo que diese ocasión al Público para una desconfianza nada favorable y comprometiese el Crédito del Erario y la estimación de todos” AGS, SSH, lg. 485, Francisco Montes to Múzquiz, Madrid , 14-10-1776. AGS, SSH, lg.485

no (more) fleets in the offing such as might provide the funds to meet this expenditure”¹⁵.¹⁶. The cycle of the Spanish financial structure had worked just as the Spanish authorities had expected: the colonial input had once more arrived in the nick of time to provide an injection of liquidity and wipe out debts that the state had been running up by drawing on the funds of “depósitos” and “cajas”, doing so on the strength of its centralisation and control of financial administration. The problem now was that, in the new cycle just starting, the country was going to wage war on Great Britain, with traditional resources run down to a minimum and colonial trade certain to be cut off.

The Spanish system of financing ordinary debt by drawing on savings or “cajas” until this could be repaid from colonial resources had the other grave drawback of discouraging any more thoroughgoing changes in the financial system, mainly by means of public debt. From our point of view the reign of Charles III does not seem to tally with the idea of an absolutist monarch with no type of institutional counterweight who felt free to carry out an arbitrary debt-creation policy with no fiscal backup, such as the French monarchy has been accused of. Pending more research on the subject, the real picture would seem to be quite the opposite. Throughout his reign he pursued what could be dubbed a “deficit-chary” policy. First of all, the Spanish crown and its ministers tried to pay off the debt inherited from their forbears. It is debatable how much was actually put towards this debt redemption but the very will to do it and allocate money to that end indicates a certain stance towards public debt. Secondly, when it was decided to set up something akin to a public debt, the Fondo Vitalicio, he kept a tight rein on it at all times, despite its warm welcome from investors. The scant development of this type of debt was not due to a lack of capital to invest or investors, for their number was actually on the increase and with smaller investment sums; rather was it because the state expressly declined to develop this public debt market (Torres, 2006c).

If the Spanish state did therefore finally decide to create public debt during the War of American Independence this was not because it was the natural corollary of being a fiscal military state but rather because the actual circumstances of this war ruled out the traditional fund-raising systems. Even then it took a few months, even a year, for the public-debt option to be taken up, during which time all sorts of other traditional fund-raising options were looked into and tried out.

Table 4.- *War Funding Sources in Spain.*

TESORERIA GENERAL	TOTAL REVENUE	Ordinary taxes	New taxes	Total Funding	Donations	Interest-free loans.	Interest- bearing loans.
1775	448,932	90.7		4.0		4.0	
1776	479,022	89.2		2.9		2.9	
1777	419,923	90.3	0.5	5.6		5.6	
1778	554,909	92.9	0.3	0.2		0.2	
1779	476,101	86.0	5.5	9.7		7.6	2.1
1780	749,559	47.1	5.8	50.3	0.8	3.1	46.4
1781	662,951	64.1	7.0	31.9	0.7	2.1	29.1

¹⁵ “es imposible ocurrir a los gastos actuales con los productos ordinarios del Reino... no hay (más) despacho de Flota de que pueda esperarse aquel ingreso de ingreso de caudales que tanto contribuyen a sostener los gastos” Zambrano a Muzquiz, 13-1-1779, AGS, SSH, lg.272.

¹⁶ In late December 1777 the warship San Julian put into Cadiz from Veracruz. In June the last fleet entered and in August and September the ships San Jose and Serio entered the port, bringing 20 million reales from Buenos Aires. In this same year 1778 a total of 93 vessels from the Americas entered the port of Cadiz, paying duties of 64,438,003. This item together with the sum brought in by the aforementioned ships added up to 156,092,898 reales (the summary cites 164,309,780) AGS, SSH, lg.272.

1782	741,304	53.5	5.8	45.0	2.0	43.0
1783	609,006	72.7	6.0	20.7	1.7	18.9
1784	575,846	90.2	3.4	5.2	0.2	5.0
1785	589,476	92.3	1.8	1.1	0.5	0.5
1786	569,241	95.0	1.4	0.2	0.0	0.2
	446,629	77.9	3.5	17.3	0.2	22.2

Source: See Table 1

New taxes were set up from 1777 onwards. Unlike in Great Britain, however, where new tax options were explored, Spain preferred to increase the burden of existing taxes: “Rentas Provinciales” (provincial revenue), tobacco, spirits, wine or salt. But the most important factor is that the state viewed these increases as an exceptional measure, to tide them over until “the Indies revenue should return ... until an occasion be found to bring it home safely”¹⁷. These tax increases were seen at all times as stopgaps; the crown even adopted an almost apologetic attitude towards them, especially when it had to renew them a year later because the war raged on. The same apologetic lenience was shown in collecting the taxes. The tax with the biggest increase was the “Rentas Provinciales”, and the towns and villages were allowed to pay it from council funds; some were even allowed to plough up new land¹⁸. It is true, therefore, that the Spanish state needed to agree this tax increase with no institution but it cannot really be said to have shown any arbitrariness in its dealings. Quite on the contrary. Everything seems to show that these tax increases were seen to be a stopgap measure to get by until the Spanish financial cycle returned to “normality”.

The fruit of these tax increases filtered in slowly to the royal coffers; the total input of the new taxes as a whole added up to 235.9 million (2.4 million pounds). This input clearly fell short of war needs; in fact these taxes accounted for only 3.5% of the revenue in the period 1775 to 1786. Likewise, donations from private individuals or institutions and reimbursable interest-free loans had a limited effect, accounting for less than 3%. The start of a war was traditionally a time for showing loyalty to the crown and what better way than making a contribution? Practically all the major institutions made some sort of money contribution (Señorío ((seigneurie)) de Vizcaya, Alava, Guipúzcoa, Navarra, Asturias, Consulado de Cádiz...) but the biggest contribution of all was made by the Church. The church cabildos (chapters) donated over 4 million, a further 20 million on a refundable basis and another 13 million in advances on future revenue; the mighty Tesorería de Temporalidades was also used as a veritable “war bank” to endow the Tesorería General with liquidity¹⁹. The Church in fact became a major contributor, albeit with limits. As the Secretario de Estado (Secretary of State), Conde de Floridablanca, said to the Secretario de Hacienda “the clergy has helped us a lot and will help us more if we know how to handle them. If we push them too far we risk forfeiting all”²⁰.

The main difference between Spain and Great Britain is that Spain saw public debt as a last ditch resort, but it turned out to be the option that made the biggest war contribution, 22.2% of the total input, sometimes up to nearly half. The creation of public

¹⁷ “retornasen las rentas de Indias... hasta encontrar ocasión de traerlos con seguridad” AGS, SSH, 1739. Madrid, 17-11-1779.

¹⁸ AGS, SSH, 1740.

¹⁹ List of Church donations in AGS, SSH, lg.364. For more information on the use of the “Depositaría de Temporalidades” see AHN, Hacienda, 1422.

²⁰ “el clero nos ha ayudado algo y nos ayudará si le sabemos manejar. Si le queremos forzar nos lo puede indisponer todo” Floridablanca to Muzquiz 8-8-1781, AHN, Estado, lg.4211.

debt in Spain focused on the mobilisation of public funds and deposits (Torres, 2006c), the creation of “Vales Reales” (crown-issued redeemable bonds) and loans taken up in Holland. The salient factor of this public debt creation in terms of assessing the characteristics of the Spanish state as a fiscal military unit is that it did not serve for setting a formal public debt market. The public security market was in fact set up by a proverbial maverick, Francisco Cabarrus, while the French merchants were ultimately interested in muscling in on the Spanish silver trade (Torres, 2006b); moreover the state actively tried to rein in public debt. All these were factors that aroused more chariness than enthusiasm. In fact the state policy was to limit and pay back the debt, turning down the chance of issuing more “Vales Reales” after the end of the war even though their market value was now above their face value. It also tried to pay back the loan taken up in Holland only three years into its term but failed to do so due to the forthright opposition of the Dutch lenders, who considered precisely Spain’s interest in paying back the loan to be its best security²¹.

Conclusion.

Spain was a fiscal military state like Great Britain. The main function of the Spanish state was the military function and this absorbed the lion’s share of its revenue. At the same time Spain had managed to introduce administrative changes similar to those carried out in Great Britain, to enable it to wield more control over revenue collection and expenditure management and increase its independence in doing so. If we take into account only these factors we could even claim that Spain was a more developed fiscal military state than Great Britain. But its structure turned out to be much less efficient than the English in rising to the real challenge: waging war. Spain relied on a fiscal system clearly geared towards colonial trade as the means to offset a structural deficit in its ordinary taxation and either would not or could not increase consumer taxes. Given this situation, it needed only to bide its time until the increasing yield of colonial trade had the knock-on effect of raising grassroots purchasing power and the taxability of consumer goods. Meanwhile the best idea was to keep expenditure down to a minimum. This restrictionist policy had two undesirable consequences: firstly it pre-empted modification of the inherited expenditure structure and secondly it also hindered the vital task of confronting the vested interests that created a public expenditure bias towards the army, when it seemed more crucial in the circumstances to increase naval expenditure. The weaknesses of the Spanish system were brought out starkly by the American War of Independence. The high degree of control over Spanish finances served only to encourage the traditional tactics of shuffling funds about or taking up interest-free loans. Only when this proved insufficient was the strategy of tax increases and public debt creation turned to, and even then only in a restrictive form. As a Galician official concluded in 1783, Spain’s only “solution” was to change its fiscal structure, specifically by shifting taxes onto consumption since this would help to bond the country together in the war effort, as had been shown, in his view, by the English: “the English suffer taxes even on daylight and lapdogs and, if it comes down to it, the very

²¹ Cabarrus wrote on 18-10-1785 to the Secretario de Hacienda about the arrangements he had made in Amsterdam with the lenders and concluded “those lenders, seeing no other fruit in the Capitalist’s endeavours to pay back the loan than to deepen their faith therein, saw fit to propose derogation of the terms laid down in RC 10-10-1782” (“aquellas Casas no prometiéndose otro fruto de los esfuerzos que pudiesen hacer para persuadir a los Capitalistas a que admitiesen el reembolso que el arraigar más la confianza con que hicieron el préstamo, no tuvieron por conveniente proponerles de derogar a las condiciones estipuladas en la RC 10-10-1782”), AGS, SSH, lg.997.

breath they breathe, and nobody quibbles because they are imbued by a spirit of patriotism that holds them all in thrall”²²

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²² “los ingleses sufren las contribuciones hasta en la luz natural y en los perritos falderos, y llegar el caso de que se comprendan sus alientos, y nadie se queja, por el espíritu de Patriotismo que los domina y los constituye temerarios”. Miguel Bañuelos to Miguel Múzquiz, Coruña, 22-1-1783. AGS, SSH, Ig.488.

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